

Before the
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Notice of Price Adjustment)
Standard Mail Incentive Pricing Program

Docket No. R2010-3

PUBLIC REPRESENTATIVE MOTION FOR
ISSUANCE OF INFORMATION REQUEST
(March 10, 2010)

On February 26, 2010, the Postal Service filed a Notice of Price Adjustment, proposing the 2010 Summer Sale for Standard Mail.¹ Commission Order No. 416 established Docket No. R2010-3, and appointed the undersigned as Public Representatives.² As described in the March 3, 2010 Motion to Defer Deadlines³, the Postal Service has not provided any documentation regarding its expected Volumes, Costs and Revenues for the 2010 Summer Sale. While the Public Representatives await the information vital to evaluating the proposed Summer Sale, the Postal Service has filed a series of documents and spreadsheets discussing the results of the R2009-3 Summer Sale. Since these documents provide data on mailers who will be eligible for the current proposal, the Public Representatives have developed an analysis of these workpapers to better ascertain how the current sale will operate and what conditions must be met in order for it to succeed. These workpapers, and a document describing the calculations therein, are provided with this motion.⁴

The following questions have two purposes. The primary objective is to analyze the effect of Standard Regular Flats on the profitability of the 2010 Summer Sale. Since data for how the Postal Service projects the 2010 sale is unavailable, the data from the 2009 sale is used. In order to minimize errors, the secondary objective of several of the

¹ United States Postal Service Notice of Market-Dominant Price Adjustment (February 26, 2010).

² Order No. 416 Notice and Order Concerning Standard Mail Volume Incentive Pricing Program (March 2, 2010).

³ Motion of the Public Representatives to Defer Deadlines (March 3, 2010).

⁴ Files "PR Workpapers.doc" "SS V1 Report- PR.xls" and "SS Workbook 1- PR.xls" are included in a .zip folder with this filing.

questions is to improve the quality of the available data. It should be noted that this data may have inaccuracies and unexplained assumptions.⁵

WHEREFORE the Public Representative requests that the Commission present the following questions to the Postal Service.

1. In response to CHIR 8 Q 3 in Docket No. ACR2009, the USPS states “The source data for both of these submissions are consistent,” referring to the file “Summer Sale – PRC Report v 1.xls” tab “Rebate data” and the mailer data in file “Summer Sale PRC – Workbook 1.xls”. The following mailer I.D.s have no volumes for the Summer Sale in “Summer Sale PRC – Workbook 1.xls”, but have positive values in “Rebate Data.” Please reconcile these figures.

Mailer ID	Difference
800235	(24,100,827)
800060	(20,768,515)
014455	(16,028,506)
006378	(8,218,855)
024129	(4,173,927)
006664	(3,954,160)
001233	(2,852,619)
021098	(1,554,963)
005592	(1,262,278)
004536	(1,259,084)
004789	(873,974)
003286	(639,398)
138421	(585,970)
005150	(425,575)
011003	(385,045)
023492	(123,650)
135495	(5,420)

2. In response to CHIR 8 Q 2 in Docket No. ACR2009, the Postal Service provided the file “(2010_03_04) Volume Attributable to SummerSale.xls,” which uses a “Spring Threshold” to compare volume growth before the sale to volume growth during the sale. This growth rate, 7.07%, is calculated using “923” mailers. There are 912 mailers in the file “Summer Sale PRC – Workbook 1.xls,” and it is not clear what additional mailers are used to calculate this value. Using data from mailers in the file “Summer Sale PRC – Workbook 1.xls” and “Summer Sale – PRC Report v 1.xls” tab “Rebate data,” the Public Representative has developed

⁵ In Response to the Docket No. ACR2009 CHIR No. 7, the Postal Service stated that 326 mailer I.D.s. Contain negative volume or revenue data. Further, the discount thresholds for 727 mailer I.D.s are adjusted, suggesting that the volume and revenue data may not be accurate.

the following growth rates, which appear in file “SS V1 Report-PR” on tab ‘Anyhow Volume’ starting at cell H 922.

	Spring Threshold Volume	Anyhow Volume	
USPS Formula	7,307,376,790	513,147,842	7.02%
Rebate Eligible Volume Only	3,546,099,239	342,018,423	9.64%

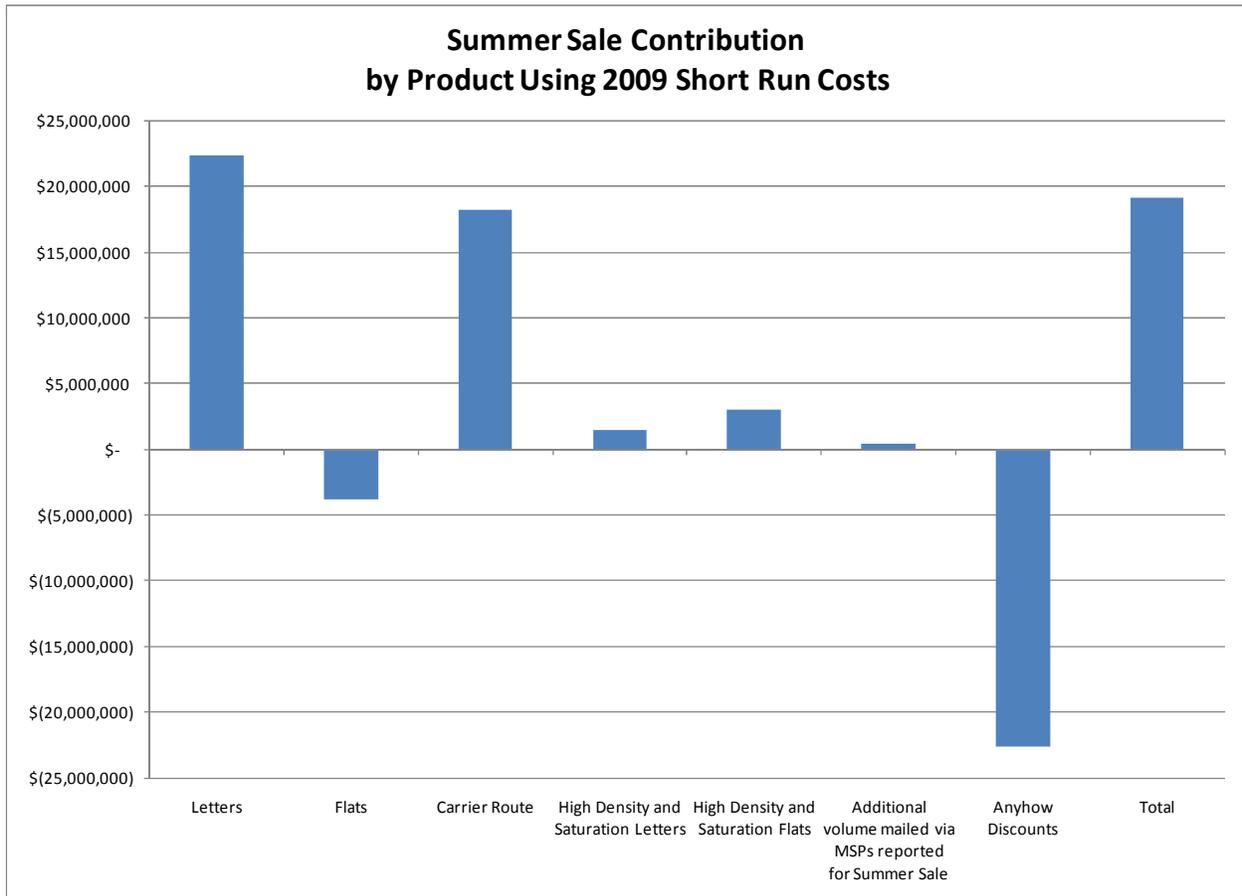
Mailers who received a discount during the summer sale had a higher anyhow growth rate of 9.64% on average.

- a. Please provide a rationale for why the growth rate was not applied individually.
 - b. Please identify the 923 mailers used in this calculation.
 - c. Are there plans to evaluate growth rates beyond the SPLY +5% before the 2010 Summer Sale?
 - d. Please provide any analysis concerning the reduction of anyhow discounts by developing more precise thresholds.
 - e. In response to R2009-3 CHIR 2, the Postal Service stated “The Postal Service will compute incremental volumes and revenues based on the trend calculations used to establish mailer thresholds for the program. Since those trends take into account recent economic conditions and mailer behavior at current prices, they can be used as a baseline against which incremental growth can be measured.” Please discuss why the Postal Service has developed a different measurement for incremental volume.
3. In response to CHIR 8 Q 1 in Docket No. ACR2009, the Postal Service provided the file “(2010-03-05) Summer Sale Financials_as of Round 4.xls.” This file uses a set of assumptions, including the anyhow growth rate in the previous question and an unsourced volume distribution, to develop the contribution from the summer sale. When the anyhow growth rate and summer sale FY09 short run cost are applied to the mailer data for each mailer in the file “Summer Sale PRC – Workbook 1.xls,” the following contribution results.

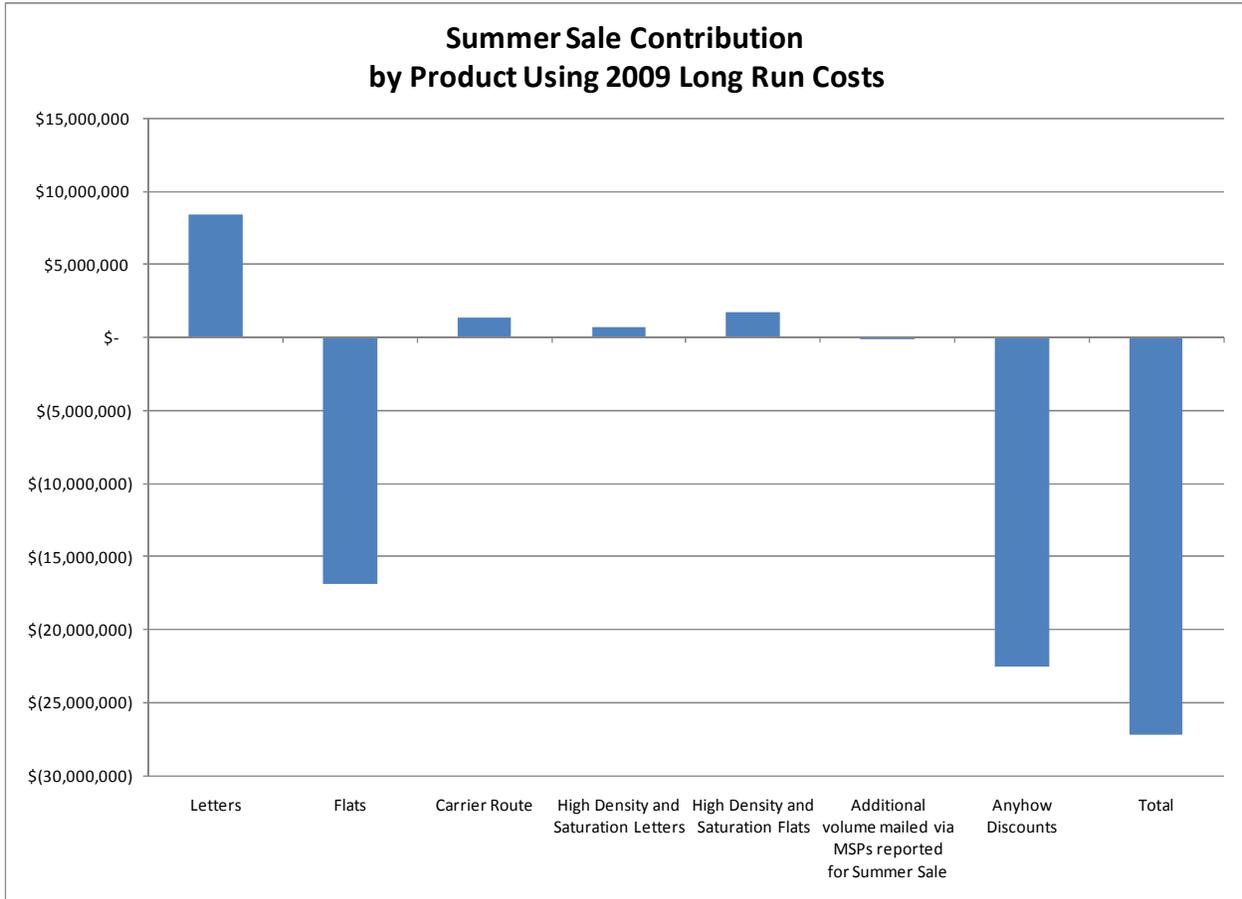
	Workbook 1 Data	USPS
Incremental Revenue	\$ 104,146,231	\$98,141,641
Anyhow Discounts	\$ 22,580,226	\$25,833,944
SR Total Cost	\$ 62,396,614	\$48,206,665
Contribution	\$ 19,169,392	\$24,101,033

- a. Please provide a rationale for applying the product level costs on aggregate.
- b. Does the Postal Service plan to develop Total Costs using aggregate volumes in the 2010 Summer Sale?

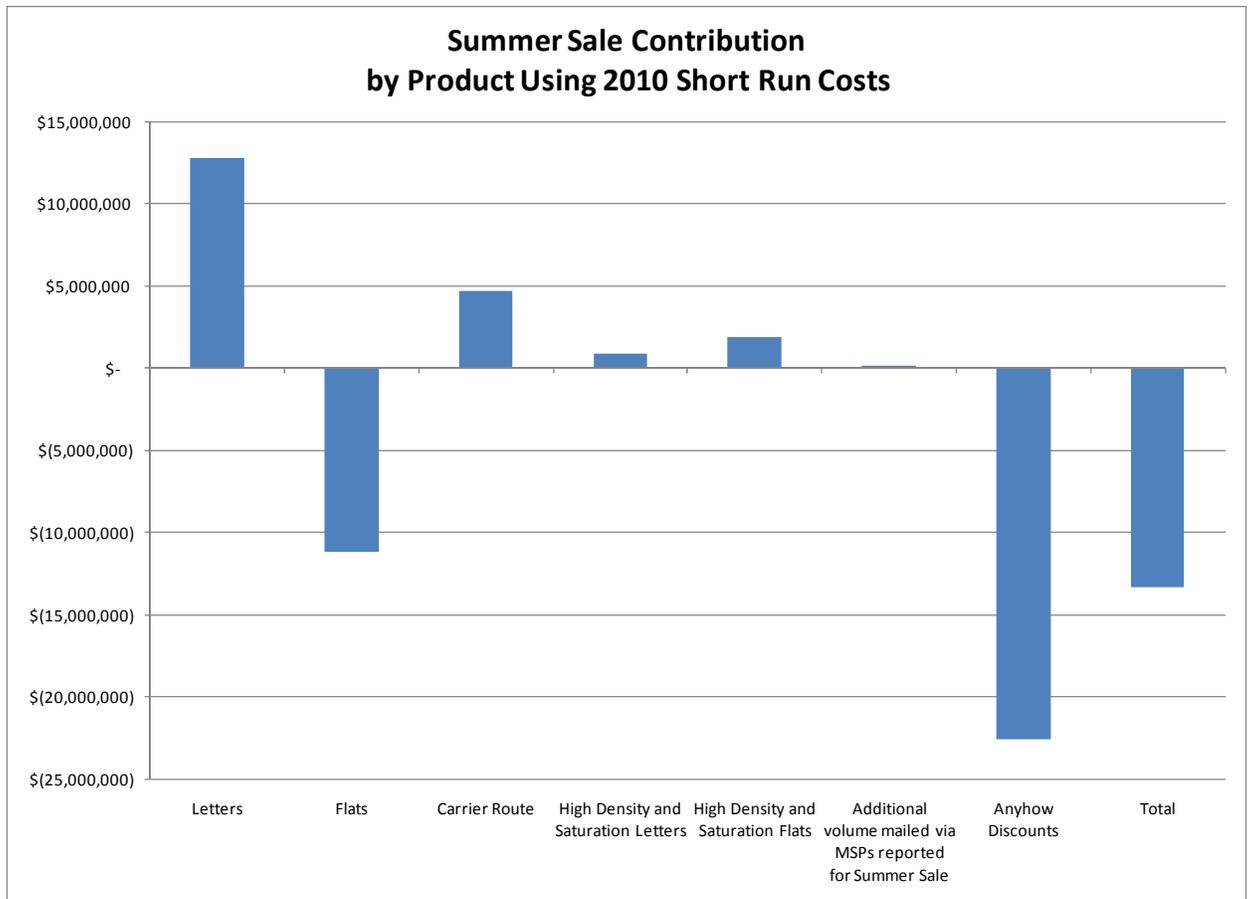
4. Using the “Summer Sale PRC – Workbook 1.xls” data, the contribution by product can be calculated. The following charts are located in the file “SS V1 Report- PR.XLS.” The following chart displays this information using the 2009 Short Run Costs. It shows that for all products, except for Flats, incremental volume increased contribution.



If the 2009 Long Run Costs are used, the following distribution occurs:



And using the R2010-2 proposed Short Run Costs:



Using both 2009 Long Run and 2010 Short Run Cost, the combination of anyhow discounts and the loss from Standard Flats would have caused the 2009 Summer Sale to lose contribution. Please explain how the 2010 proposal will eliminate this concern.

- The following table uses data from "Summer Sale PRC – Workbook 1.xls" to develop average revenue per piece and average cost per piece for the mailers that received discounts during the Summer Sale to estimate the Contribution using the Commission approved methodology⁶

⁶ the Standard Regular elasticity for the current period is -.129, the Standard ECR elasticity for the current period is -.178. (Letter From Andrew German, January 20 2010)

	Total Volume	Original Revenue/ Discounted Revenue	Elasticity	Before Rates Volume
Summer Sale Volume from Mailers with Rebates	4,169,973,043	1.428571429	-0.149032691	3,954,101,301
	Incremental Volume	Discounted Volume	Anyhow Volume	
Summer Sale Volume from Mailers with Rebates	215,871,742	987,977,741	772,105,999	
	Average Revenue per piece	Average Discounted Revenue Per Piece	Average Cost Per Piece	Average Anyhow Discount
Summer Sale Volume from Mailers with Rebates	\$ 0.230	\$ 0.161	\$ 0.097	\$ 0.069
	Incremental Revenue	Incremental Cost	Anyhow Discounts	Contribution
Summer Sale Volume from Mailers with Rebates	34,804,402.94	20,852,188.81	53,350,504.95	(39,398,290.82)

Calculating the Postal Service Anyhow Volume using the method from the file “(2010_03_04) Volume Attributable to SummerSale.xls” in Docket No. ACR2009 the implied elasticity is -.611

Total Volume	Original Revenue/ Discounted Revenue	Elasticity	Before Rates Volume	Discounted Volume	Anyhow Volume
4,169,973,043	1.428571429	-0.611	3,524,013,725	987,977,741	342,018,423

- a. Please explain why the methodology used by the Postal Service in the file “(2010-03-05) Summer Sale Financials_as of Round 4.xls” is more accurate.
- b. Please explain which method the Postal Service will use to evaluate the 2010 Summer Sale.

Respectfully submitted,

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